



**REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS
AUDIT EXAMINATION OF THE
NATURAL RESOURCES AND ENVIRONMENTAL
PROTECTION CABINET**

**Made as Part of the Statewide Single Audit
of the Commonwealth of Kentucky**

For the Year Ended June 30, 2000

**EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS
WWW.KYAUDITOR.NET**

**144 CAPITOL ANNEX
FRANKFORT, KY 40601
TELE. (502) 564-5841
FAX (502) 564-2912**

EXECUTIVE SUMMARY
REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS
AUDIT EXAMINATION OF THE NATURAL RESOURCES AND
ENVIRONMENTAL PROTECTION CABINET
FOR THE YEAR ENDED JUNE 30, 2000

BACKGROUND:

The Federal Single Audit Act of 1984, subsequent amendments, and corresponding regulations, requires the auditing of financial statements and the compliance and internal controls applicable to federal moneys received by the Commonwealth of Kentucky. To comply with these requirements we audited internal controls and compliance at both the central and agency level. This summary is on our audit of one organizational unit of the Commonwealth, the Natural Resources and Environmental Protection Cabinet.

The Natural Resources and Environmental Protection Cabinet functions to protect and preserve Kentucky's land, air, and water resources through its divisions of water, waste, air quality, forestry, conservation, and energy, and through its Department for Surface Mining Reclamation and Enforcement. The Division of Abandoned Mine Lands works throughout the state's coalfields to protect the public from health and safety problems that are the result of mining operations.

The division's Abandoned Mine Land program is fully funded by the federal government. The federal government gets funding for Abandoned Mine Land programs by collecting a fee on every ton of coal produced by mining operations nationwide. Total federal spending for the Abandoned Mine Land Reclamation Program for FY 2000 was \$14.5 million.

EXPENDITURES:

Natural Resources and Environmental Protection Cabinet expended federal awards in the following manner:

- \$41,342,327 in cash from 7 federal grantors
- \$4,270,569 in noncash grants

SUMMARY OF AUDITORS RESULTS:

Financial Statement Accounts - We did not perform a financial statement audit specific to Natural Resources and Environmental Protection Cabinet.

Federal Awards and Schedule of Expenditures of Federal Awards -

Compliance: No instances of noncompliance.

Internal Control Over Compliance: No instances of reportable conditions.

Other Matters:

- Weakness noted in monitoring timesheet reporting
- Stronger controls needed to improve preparation of the Schedule of Expenditures of Federal Awards

CONTENTS

	<u>Page</u>
<u>INTRODUCTION</u>	
Introduction	2
Schedule of Expenditures of Federal Awards	2
Schedule of Findings and Questioned Costs	2
Summary Schedule of Prior Audit Findings	3
Audit Approach	3
List Of Abbreviations/Acronyms Used In This Report.....	4
<u>SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS</u>	
Schedule Of Expenditures Of Federal Awards	6
Notes To The Schedule Of Expenditures Of Federal Awards	9
<u>REPORTS ON COMPLIANCE AND INTERNAL CONTROL</u>	
Report On Compliance With Requirements Applicable To Each Major Program And On Internal Control Over Compliance In Accordance With OMB Circular A-133 And On The Schedule Of Expenditures Of Federal Awards	15
<u>SCHEDULE OF FINDINGS AND QUESTIONED COSTS</u>	
Section 1 - Summary Of Auditor's Results.....	19
Section 2 - Financial Statement Findings.....	20
Section 3 - Federal Award Findings And Questioned Costs.....	21
<u>Other Matters Relating to Internal Control And/Or Compliance:</u>	
<u>FINDING 00-NREPC-1:</u> Natural Resources And Environmental Protection Cabinet Should Improve Its Controls Over The Review Of Timesheets	21
<u>FINDING 00-NREPC-2:</u> Natural Resources and Environmental Protection Cabinet Should Continue To Strengthen Internal Controls Over The Preparation Of The Schedule of Expenditures of Federal Awards	22
<u>SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS</u>	
Summary Schedule Of Prior Audit Findings	26

INTRODUCTION

**NATURAL RESOURCES AND
ENVIRONMENTAL PROTECTION CABINET
INTRODUCTION
FOR THE YEAR ENDED JUNE 30, 2000**

Introduction

The Auditor of Public Accounts (APA), acting as principal auditor in conjunction with various certified public accounting firms, annually performs a statewide single audit of the Commonwealth of Kentucky. This audit allows the Commonwealth to comply with federal audit requirements as set forth in the Single Audit Act of 1984, as amended by Public Law 104-156, and the regulations contained in the U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

Schedule of Expenditures of Federal Awards

This report contains the Schedule of Expenditures of Federal Awards for the Natural Resources and Environmental Protection Cabinet. The Notes to the Schedule of Expenditures of Federal Awards follows the schedule to provide more detailed information on certain aspects of the expenditures, such as the amount given to subrecipients.

Since not all state agencies use the Management Administrative Reporting System (MARS) Subsystems for Projects, the APA requested all state agencies to prepare worksheets of federal financial assistance, both cash and noncash. The source of these worksheets included MARS, agency accounting systems, agency manual records, etc. The Natural Resources and Environmental Protection Cabinet was also asked to reconcile the worksheets to MARS and to federal grantor reports. These worksheets were compiled into the accompanying Schedule of Expenditures of Federal Awards.

Schedule of Findings and Questioned Costs

The Schedule of Findings and Questioned Costs consists of three sections,

- The Summary of Auditor's Results,
- Financial Statement
- Federal Award Findings and Questioned Costs

Each audit finding number and the audit finding's classification (as reportable, material, or other matters) is provided as part of the audit opinion summary. Major programs audited are listed on the Summary of Auditor's Results. The second part is the Financial Statement Findings. This part lists all the audit findings related to the financial statements. The third part, the Federal Award Findings and Questioned Costs, lists all findings related to federal awards. Generally, the state agency, CFDA number and program, federal agency, pass-through agency, and the compliance area the finding relates to are presented. In both parts two and three, reportable conditions and reportable instances of noncompliance are presented first, then material weaknesses and material instances of noncompliance, followed by other matters.

**NATURAL RESOURCES AND ENVIRONMENTAL PROTECTION CABINET
INTRODUCTION
FOR THE YEAR ENDED JUNE 30, 2000
(CONTINUED)**

Summary Schedule of Prior Audit Findings

Audit findings reported in the Schedule of Findings and Questioned Costs for the fiscal year ended June 30, 1999 (as well as any previous findings which have not been resolved) are reported in the agency's Summary Schedule of Prior Audit Findings for the fiscal year ended June 30, 2000. If the APA determines the agency's Summary Schedule of Prior Audit Findings materially misrepresents the status of any prior audit finding, a new audit finding is issued and reported in the Schedule of Findings and Questioned Costs.

The Summary Schedule of Prior Audit Findings is organized based on whether the prior year finding was reportable, material or other matter. The findings of each classification are categorized as (1) fully corrected, (2) not corrected or partially corrected, (3) corrective action taken differs significantly from corrective action previously reported, or (4) finding no longer valid or does not warrant further action. If a finding has been reclassified, from material to reportable for instance, the finding will appear in the material finding section of the summary schedule and the comment will indicate the reclassification. In the following year, the finding will appear in the reportable section of the summary schedule.

Audit Approach

Our audit was conducted in accordance with the Single Audit Act Amendments of 1996, OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, *Government Auditing Standards* (also referred to as the Yellow Book), and generally accepted auditing standards. The scope of the statewide single audit for the year ended June 30, 2000 included:

- An audit of the general-purpose financial statements and required supplementary schedules in accordance with generally accepted government auditing standards;
- An audit of supplementary Schedule of Expenditures of Federal Awards in accordance with generally accepted government auditing standards;
- An audit of the internal control applicable to the Natural Resources and Environmental Protection Cabinet's organizational units and administrative bodies, to the extent necessary to consider and test the internal accounting and administrative control systems as required; and

**NATURAL RESOURCES AND ENVIRONMENTAL PROTECTION CABINET
INTRODUCTION
FOR THE YEAR ENDED JUNE 30, 2000
(CONTINUED)**

Audit Approach (Continued)

- A selection and testing of transactions and records relating to each major federal financial assistance program to obtain reasonable assurance that the Natural Resources and Environmental Protection Cabinet administers its major federal financial assistance programs in compliance with laws and regulations for which noncompliance could have a material effect on the allowability of program expenditures or on the Commonwealth's general-purpose financial statements.

The APA conducted the audit of internal controls, focusing on the following objectives:

- Considering the internal control in order to determine auditing procedures on the general-purpose financial statements of the Commonwealth.
- Determining if the Natural Resources and Environmental Protection Cabinet had internal controls to provide reasonable assurance that it is managing the federal assistance programs in compliance with applicable laws and regulations.

List Of Abbreviations/Acronyms Used In This Report

AML	Abandoned Mine Lands
AMLR	Abandoned Mine Land Reclamation
APA	Auditor of Public Accounts
CAP-SSSE	Community Assistance Program – State Support Services Element
CFDA	Catalog of Federal Domestic Assistance
EPA	Environmental Protection Agency
FY	Fiscal Year
FYE	Fiscal Year End
KRS	Kentucky Revised Statutes
MARS	Management Administrative Reporting System
NA	Not Applicable or Not Available
NREPC	Natural Resources and Environmental Protection Cabinet
OMB	United States Office of Management and Budget
U.S.	United States

THIS PAGE LEFT BLANK INTENTIONALLY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

**NATURAL RESOURCES AND ENVIRONMENTAL PROTECTION CABINET
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FEDERAL ASSISTANCE PROGRAMS
FOR THE YEAR ENDED JUNE 30, 2000**

State Agency Federal Grantor CFDA #/ Program Title	Pass-through Grantor's #	Expenditures	
		Cash	Noncash
<u>U.S. Department of Agriculture</u>			
Direct Programs:			
10.064 Forestry Incentives Program	NA	\$ 2,056	
10.069 Conservation Reserve Program	NA	8,067	
10.652 Forestry Research	NA	200,670	
10.664 Cooperative Forestry Assistance (Note 3) (Note 4)	NA	1,251,680	\$ 3,711,090
10.901 Resource Conservation and Development	NA	700	
10.912 Environmental Quality Incentive Program	NA	14,889	
NA Section 319 Nonpoint Source Project (Note 4)	NA		43,228
<u>U.S. Department of Defense</u>			
Direct Programs:			
12.113 State Memorandum of Agreement Program for the Reimbursement of Technical Services (Note 3)	NA	370,347	
NA Chemical Demilitarization and Remediation Activity for Hazardous Waste Activities at Chemical Demilitarization Facilities	NA	23,740	
<u>U.S. Department of the Interior</u>			
Direct Programs:			
15.250 Regulation of Surface Coal Mining and Surface Effects of Underground Coal Mining (Note 3) (Note 4)	NA	12,487,989	60,390
15.252 Abandoned Mine Land Reclamation (AMLR) Program (Note 2) (Note 3)	NA	14,568,358	
15.615 Cooperative Endangered Species Conservation Fund	NA	23,102	
NA Joint Funding Agreements for Water Resources Investigations (Note 4)	NA		178,760
<u>U.S. Small Business Administration</u>			
Direct Program:			
59.045 Natural Resource Development (Note 5)	NA		

See accompanying notes to the Schedule of Expenditures of Federal Awards

**NATURAL RESOURCES AND ENVIRONMENTAL PROTECTION CABINET
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FEDERAL ASSISTANCE PROGRAMS
FOR THE YEAR ENDED JUNE 30, 2000
(CONTINUED)**

State Agency Federal Grantor CFDA #/ Program Title	Pass-through Grantor's #	Expenditures	
		Cash	Noncash
<u>U.S. Environmental Protection Agency</u>			
Direct Programs:			
66.001 Air Pollution Control Program Support (Note 4)	NA	\$ 1,282,283	\$ 4,386
66.419 Water Pollution Control – State and Interstate Program Support (Note 3)	NA	1,220,861	
66.432 State Public Water System Supervision	NA	621,386	
66.438 Construction Management Assistance	NA	323,527	
66.454 Water Quality Management Planning (Note 3)	NA	154,059	
66.460 Nonpoint Source Implementation Grants	NA	1,283,165	
66.461 Wetlands Protection – Development Grants (Note 3)	NA	109,698	
66.463 National Pollutant Discharge Elimination System Related State Program Grants (Note 3)	NA	128,031	
66.467 Wastewater Operator Training Grant Program (Technical Assistance)	NA	37,255	
66.470 Hardship Grant Program Rural Communities (Note 3)		491,419	
66.606 Surveys, Studies, Investigations and Special Purpose Grants (Note 4)	NA	299,403	272,715
66.701 Toxic Substances Compliance Monitoring Cooperative Agreements	NA	131,709	
66.708 Pollution Prevention Grants Program (Note 3)	NA	22,987	
66.801 Hazardous Waste Management State Program Support	NA	1,467,202	
66.802 Superfund State Site – Specific Cooperative Agreements	NA	191,695	
66.804 State Underground Storage Tanks Program	NA	127,289	
66.805 Leaking Underground Storage Tank Trust Fund Program	NA	959,366	
66.808 Solid Waste Management Assistance (Note 5)	NA		
66.809 Superfund State Core Program Cooperative Agreements	NA	325,680	
Passed Through From Kentucky Infrastructure Authority:			
66.458 Capitalization Grants for State Revolving Funds	NA	918,216	
66.468 Capitalization Grants for Drinking Water State	NA	778,120	

See accompanying notes to the Schedule of Expenditures of Federal Awards

**NATURAL RESOURCES AND ENVIRONMENTAL PROTECTION CABINET
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FEDERAL ASSISTANCE PROGRAMS
FOR THE YEAR ENDED JUNE 30, 2000
(CONTINUED)**

State Agency		Pass-through Grantor's #	Expenditures	
Federal Grantor			Cash	Noncash
CFDA #/ Program Title				
<u>U.S. Department of Energy</u>				
Direct Programs:				
81.039	National Energy Information Center	NA	\$ 4,487	
81.041	State Energy Program (Note 3)	NA	714,564	
81.052	Energy Conservation for Institutional Buildings (Note 3)	NA	51,013	
81.086	Conservation Research & Development	NA	64,936	
81.502	Paducah Gaseous Diffusion Plant Environmental Monitoring and Oversight (Note 3)	NA	614,483	
Passed Through From State of North Carolina				
Department of Commerce:				
81.041	State Energy Program	NA	14,905	
<u>U.S. Federal Emergency Management Agency</u>				
Direct Program:				
83.550	National Dam Safety Program (Note 5)	NA		
Passed-Through From Department of Military Affairs:				
83.105	Community Assistance Program - State Support Services Element (CAP-SSSE)	NA	52,990	
Total Natural Resources and Environmental Protection Cabinet			\$41,342,327	\$ 4,270,569

See accompanying notes to the Schedule of Expenditures of Federal Awards

**NATURAL RESOURCES AND ENVIRONMENTAL PROTECTION CABINET
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2000**

Note 1 - Purpose of the Schedule and Significant Accounting Policies

Purpose of the Schedule - OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, requires a Schedule of Expenditures of Federal Awards showing each federal financial assistance program as identified in the Catalog of Federal Domestic Assistance.

Basis of Presentation - The accompanying Schedule of Expenditures of Federal Awards is presented in accordance with OMB Circular A-133. As defined in the Circular, federal financial assistance “. . . means assistance that non-federal entities receive or administer in the form of grants, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, and other assistance, but does not included amounts received as reimbursement for services rendered to individuals . . .” It includes awards received directly from federal agencies, or indirectly through other units of state and local governments. The accompanying schedule includes both cash and noncash federal financial assistance programs. Those programs that have not been assigned a catalog number, or for which the catalog number was not available, have been shown either at the bottom of the relevant federal grantor subheading or under the “Other Federal Assistance” subheading.

Reporting Entity - The accompanying schedule includes all federal financial assistance programs administered by the Natural Resources and Environmental Protection Cabinet. The Natural Resources and Environmental Protection Cabinet is an organizational unit of the Commonwealth of Kentucky as defined by KRS 12.010 and is included in the Commonwealth entity for financial reporting purposes.

Basis of Accounting - The cash expenditures on the accompanying schedule are presented primarily on the basis of cash disbursements as modified by the application of KRS 45.229. Consequently, certain expenditures are recorded in the accounts only when cash is disbursed.

KRS 45.229 provides that the Finance and Administration Cabinet may, “. . . for a period of thirty (30) days after the close of any fiscal year, draw warrants against the available balances of appropriations made for that fiscal year, for the payment of expenditures incurred during that year or in fulfillment of contracts properly made during the year, but for no other purpose.” However, there is an exception to the application of KRS 45.229 in that regular payroll expenses incurred during the last pay period of the fiscal year are charged to the next year.

The Commonwealth’s general-purpose financial statements are presented on the accrual/modified accrual basis of accounting. Therefore, the schedule may not be directly traceable to the general-purpose financial statements in all cases.

**NATURAL RESOURCES AND ENVIRONMENTAL PROTECTION CABINET
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2000
(CONTINUED)**

Note 1 - Purpose of the Schedule and Significant Accounting Policies (Continued)

Basis of Accounting (Continued)

The accompanying schedule - noncash assistance programs presents the noncash assistance expended by the Natural Resources and Environmental Protection Cabinet during the period July 1, 1999 through June 30, 2000, using the method or basis of valuation as described in the notes to the schedule for each program. These noncash assistance programs are not reported in the Commonwealth's general-purpose financial statements for the year ended June 30, 2000.

Inter-agency Activity - Certain transactions relating to federal financial assistance may appear in the records of more than one state agency. To avoid the overstatement of federal expenditures, the following policies were adopted for the presentation of the Natural Resources and Environmental Protection Cabinet's schedule:

- (a) Federal moneys may be received by one state agency (primary state agency - recipient) and passed through to another state agency (secondary state agency-subrecipient) where the moneys are expended. Except for pass-throughs to state universities as discussed below, this inter-agency transfer activity is reported in the Natural Resources and Environmental Protection Cabinet's schedules as follows:
- Under the primary state agency, the federal program is reported as a direct program. However, the transfer of money to the secondary state agency is not included in the primary state agency's expenditures.
 - Under the secondary state agency, the federal program is reported as a pass-through program. The expenditure of the transferred moneys is reported in the secondary agency's expenditures.

Because the Natural Resources and Environmental Protection Cabinet's schedule excludes federal financial assistance related to state universities, when a state agency passes federal money to a state university, this is reported in the schedule as an expenditure of that state agency.

- (b) Federal moneys received by a state agency and used to purchase goods or services from another state agency are reported in the Natural Resources and Environmental Protection Cabinet's schedule as an expenditure.

**NATURAL RESOURCES AND ENVIRONMENTAL PROTECTION CABINET
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2000
(CONTINUED)**

Note 2 - Type A Programs

Under the provisions of OMB Circular A-133, a Type A program for the Commonwealth means any program for which total expenditures of federal awards exceeded \$14 million for FY 2000. In relation to noncash federal financial assistance programs, this threshold is generally applied to the amount of assistance expended during the year as presented on the noncash portion of the schedule, plus any cash expenditures under the same CFDA designation.

The Natural Resources and Environmental Protection Cabinet had one program (cash and noncash) that met the Type A major program definition for the year ended June 30, 2000:

<u>CFDA #</u>	<u>Program Title</u>	<u>Expenditures</u>
15.252	Abandoned Mine Land Reclamation (AMLR) Program	\$ 14,568,358

Note 3 - Subrecipient Activity

A subrecipient is a non-federal entity that expends federal awards received from a pass-through entity to carry out a federal program. The following list summarizes the amount of federal funds sent to subrecipients.

<u>CFDA#</u>	<u>Federal Program Name</u>	<u>Amount Sent</u>
10.664	Cooperative Forestry Assistance	\$ 183,977
12.113	State Memorandum of Agreement Program for the Reimbursement of Technical Services	8,981
15.250	Regulation of Surface Coal Mining and Surface Effects of Underground Coal Mining	37,793
15.252	Abandoned Mine Land Reclamation Program	2,805,911
66.419	Water Pollution Control - State and Interstate Program Support	1,961
66.454	Water Quality Management Planning	81,499
66.461	Wetlands Protection - Development Grants	108,543
66.463	National Pollutant Discharge Elimination System Related State Program Grants	16,406

**NATURAL RESOURCES AND ENVIRONMENTAL PROTECTION CABINET
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2000
(CONTINUED)**

Note 3 - Subrecipient Activity (Continued)

CFDA#	Federal Program Name	Amount Sent
66.470	Hardship Grant Program Rural Communities	\$ 491,419
66.708	Pollution Prevention Grants Program	22,675
81.041	State Energy Program	293,405
81.052	Energy Conservation for Institutional Buildings	51,013
81.502	Paducah Gaseous Diffusion Plant Environmental Monitoring and Oversight	116,966
Total Amount Sent to Subrecipients		<u>\$4,220,549</u>

Note 4 - Noncash Expenditure Programs

The Natural Resources and Environmental Protection Cabinet had six noncash programs for the year ended June 30, 2000. These noncash programs and a description of the method/basis of valuation follow.

CFDA#	Program Title	Amount	Method/Basis of Valuation
10.664	Cooperative Forestry Assistance	\$3,711,090	Original Purchase Price for Federal Surplus Property
15.250	Regulation of Surface Coal Mining and Surface Effects of Underground Coal Mining	60,390	Match in Salaries
66.001	Air Pollution Control Program Support	4,386	EPA In-Kind Contribution
66.606	Surveys, Studies, Investigations and Special Purpose Grants	272,715	EPA In-Kind Contribution
NA	Section 319 Nonpoint Source Project	43,228	Match in Salaries
NA	Joint Funding Agreements for Water Resources Investigations	178,760	In-Kind Match of State Contribution
Total Noncash Expenditures		<u>\$4,270,569</u>	

**NATURAL RESOURCES AND ENVIRONMENTAL PROTECTION CABINET
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2000
(CONTINUED)**

Note 5 - Zero Expenditure Programs

These programs had no expenditures during the year ended June 30, 2000. They included programs with no activity during the year, such as old programs not officially closed out or new programs issued late in the fiscal year. They also include programs with activity other than expenditures.

REPORT ON COMPLIANCE AND INTERNAL CONTROL



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Paul E. Patton, Governor

James E. Bickford, Secretary

Natural Resources and Environmental Protection Cabinet

Report On Compliance With Requirements Applicable To Each
Major Program And On Internal Control Over Compliance In Accordance
With OMB Circular A-133 And On The Schedule Of Expenditures Of Federal Awards

Compliance

As part of the Statewide Single Audit of the Commonwealth of Kentucky, we have audited the compliance of the Natural Resources and Environmental Protection Cabinet (NREPC), an organizational unit of the Commonwealth of Kentucky as defined by KRS 12.010, with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2000. The NREPC's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the NREPC's management. Our responsibility is to express an opinion on the NREPC's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about NREPC's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on NREPC's compliance with those requirements.

In our opinion, NREPC complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2000.

Report On Compliance With Requirements Applicable To Each
Major Program And On Internal Control Over Compliance In Accordance
With OMB Circular A-133 And On The Schedule Of Expenditures Of Federal Awards
(Continued)

Internal Control Over Compliance

Management of NREPC is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered NREPC's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over compliance that we have reported to the management of NREPC and are described in the accompanying schedule of findings and questioned costs.

Schedule of Expenditures of Federal Awards

We have audited the general-purpose financial statements of the Commonwealth as of and for the year ended June 30, 2000, and have issued our report thereon dated February 28, 2001. Our audit was performed for the purpose of forming an opinion on the general-purpose financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the general-purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the Commonwealth's general-purpose financial statements.

As described in Note 1, the schedule of expenditures of federal awards of the NREPC is intended to present only that portion of the expenditures of federal awards of the Commonwealth that is attributable to the transactions of the NREPC.

Report On Compliance With Requirements Applicable To Each
Major Program And On Internal Control Over Compliance In Accordance
With OMB Circular A-133 And On The Schedule Of Expenditures Of Federal Awards
(Continued)

Schedule of Expenditures of Federal Awards (Continued)

The general-purpose financial statements of the Commonwealth are prepared on the accrual/modified accrual basis of accounting. However, as described in Note 1, the schedule of expenditures of federal awards of the NREPC is prepared on the basis of cash disbursements as modified by the application of KRS 45.229. Consequently, certain expenditures are recorded in the accounts only when cash is disbursed. Accordingly, the schedule of expenditures of federal awards is not intended to present the expenditures of federal awards in conformity with accounting principles generally accepted in the United States of America.

In our opinion, except for the effect of the application of a different basis of accounting as explained above, the schedule of expenditures of federal awards of the NREPC is fairly stated, in all material respects, in relation to the Commonwealth's general-purpose financial statements taken as a whole.

This report is intended solely for the information and use of management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Edward B. Hatchett, Jr.
Auditor of Public Accounts

Schedule of Expenditures of Federal Awards
February 28, 2001

July 27, 2001

THIS PAGE LEFT BLANK INTENTIONALLY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**NATURAL RESOURCES AND ENVIRONMENTAL PROTECTION CABINET
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2000**

SECTION 1 - SUMMARY OF AUDITOR'S RESULTS

Financial Statement Accounts

Financial Statement Accounts: We did not perform a financial statement audit specific to NREPC.

Internal Control Over Financial Reporting: We did not perform a financial statement audit specific to NREPC.

Compliance: We did not perform a financial statement audit specific to NREPC.

Federal Awards and Schedule of Expenditures of Federal Awards

Compliance: We issued an unqualified opinion on the NREPC's compliance with the requirements applicable to each of its major federal programs.

Internal Control Over Compliance: Our consideration of the NREPC's internal control over compliance disclosed no reportable conditions. However, we noted other matters involving the internal control over compliance that we have reported to management of the NREPC.

Schedule of Expenditures of Federal Awards: We issued a qualified opinion on the NREPC's Schedule of Expenditures of Federal Awards because the schedule was presented on a basis of accounting that was not in conformance with accounting principles generally accepted in the United States of America as described in Note 1 of the schedule. The opinion was issued in relation to the Commonwealth's general-purpose financial statements taken as a whole.

Identification Of Major Programs Audited

OMB Circular A-133 defines a major program as "a Federal program determined by the auditor to be a major program in accordance with section __.520 or a program identified as a major program by the Federal awarding agency or pass-through entity in accordance with section __.215 (c)." Section __.520 states, "The auditor shall use a risk-based approach to determine which Federal programs are major programs." The following is a list of major Type A programs audited:

<u>CFDA #</u>	<u>Program Title</u>	<u>Expenditures</u>
15.252	Abandoned Mine Land Reclamation (AMLR) Program	\$14,568,358

**NATURAL RESOURCES AND ENVIRONMENTAL PROTECTION CABINET
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2000
(CONTINUED)**

SECTION 1 - SUMMARY OF AUDITOR'S RESULTS (CONTINUED)

Dollar Threshold Used To Distinguish Between Type A And Type B Programs

The maximum dollar threshold used to distinguish between Type A and Type B programs was \$14,000,000. No Type B Programs were audited in FY 2000.

Auditee Qualify As Low-Risk Auditee?

The Commonwealth of Kentucky did not qualify as a low-risk auditee.

SECTION 2 - FINANCIAL STATEMENT FINDINGS

There were no financial statement audit findings or questioned costs.

**NATURAL RESOURCES AND ENVIRONMENTAL PROTECTION CABINET
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2000
(CONTINUED)**

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Other Matters Relating To Internal Control And/Or Compliance:

**FINDING 00-NREPC-1: Natural Resources And Environmental Protection Cabinet
Should More Closely Monitor Internal Controls Over Timesheet Reporting**

State Agency: Natural Resources and Environmental Protection Cabinet

Federal Program: Various

Federal Agency: Various

Pass-Through Agency: Not Applicable

Compliance Area: Internal Controls

Amount of Questioned Costs: None

During our payroll testing, we examined a sample of 33 Natural Resources and Environmental Protection Cabinet employees' personnel records and timesheets for several attributes. We selected our sample of items from the time period ending February 15, 2000. The results of our testing included the following exception:

For one employee, changes were made to the submitted timesheet and were not initialed by the employee and the supervisor.

Recommendation

We recommend that timesheets be examined more closely to prevent errors in recording payroll. The employee and the supervisor should initial any changes to a time record.

Management's Response and Corrective Action Plan

This is in response to the weaknesses or that was detected on this audit for the FYE 06/30/00. The weakness noted that any employees' timesheet had a change that had failed to be initialed by the employee and supervisor. Due to the small staff in the cabinet's payroll section time does not allow for each timesheet and leave slip to be reviewed each pay period. Each pay period a random review of timesheets is conducted for accuracy and that all procedures are being adhered. Our agency holds the timekeepers and supervisors responsible for making sure that all appropriate accounting procedures are met prior to submitting the individual leave records to the Personnel Branch.

A reminder will be sent to all agency timekeepers and supervisors making them aware that a weakness has been detected and restating their responsibilities

**NATURAL RESOURCES AND ENVIRONMENTAL PROTECTION CABINET
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2000
(CONTINUED)**

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Other Matters Relating To Internal Control And/Or Compliance: (Continued)

**FINDING 00-NREPC-2: Natural Resources and Environmental Protection Cabinet
Should Continue To Strengthen Internal Controls Over The Preparation Of The
Schedule Of Expenditures Of Federal Awards**

State Agency: Natural Resources and Environmental Protection Cabinet

Federal Program: Various

Federal Agency: Various

Pass-Through Agency: Not Applicable

Compliance Area: Internal Controls

Amount of Questioned Costs: None

During our internal control/substantive testing related to the Schedule of Expenditures of Federal Awards for the year ended June 30, 2000, we examined the receipts and expenditures on the schedule in accordance with APA instructions. We noted specific weaknesses concerning review procedures such as:

- Lack of evidence that the schedule was reviewed, either by initials or signatures within the schedule.
- Same footing error as last year in the total expenditures listed on the last page of the schedule.
- The person listed as the preparer on the schedule actually prepared and reviewed the final Schedule of Expenditures of Federal Awards.
- The preparer needs to be listed on the Noncash Programs Schedule, as well; instead, the reviewer was listed.

There were amounts noted on the Noncash Program Schedule that did not trace to supporting documentation.

Recommendation

We recommend that NREPC implement internal control policies and procedures to ensure that the Schedule of Expenditures of Federal Awards is properly reviewed by someone not involved in the preparation process.

**NATURAL RESOURCES AND ENVIRONMENTAL PROTECTION CABINET
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2000
(CONTINUED)**

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Other Matters Relating To Internal Control And/Or Compliance: (Continued)

**FINDING 00-NREPC-2: Natural Resources and Environmental Protection Cabinet
Should Continue To Strengthen Internal Controls Over The Preparation Of The
Schedule Of Expenditures Of Federal Awards (Continued)**

Management's Response and Corrective Action Plan

The Schedule of Expenditures of Federal Awards (SEFA) was prepared by the accountants and reviewed by their supervisors and by the manager.

- The manager signed off as the preparer on each page because she is ultimately responsible for the information and there was no place for both preparer and the reviewer on the forms provided by the Auditor's Office, nor was there any indication of this in APA's instructions. Sometimes more than one accountant prepares the grants that make up a CFDA # (one form), yet there are no guidelines on how to represent more than one preparer. There are copies of the SEFA by Accountant with notations, and copies by Supervisors with notations kept by the agency that prove the documents were prepared by the accountant and reviewed by supervisors. These back-up documents were offered for review to the auditors several times, but they refused to consider them in their review.*
- There was a footing error, not within the Schedule, but on the summary sheet provided by our staff. We have corrected the error.*
- Individuals throughout the Cabinet submitted the Non-cash Schedules. The forms were provided as submitted by the divisions, with the different preparers' names. The manager signed off on these because she is the person ultimately responsible and neither the procedures nor the forms provided by the Auditor's Office allows for both the reviewer and the preparer to sign, and there is no guidance if the form was prepared by multiple division staff.*
- The amounts on the NonCash Program Schedule that did not trace were attributable to one division and that division will institute reconciliation procedures for the future preparation of SEFA Non-Cash forms.*

In the future we will note both the preparer and reviewers' names on the forms that are submitted to APA. We request that both the electronic forms and the procedures be updated to include instructions on how this should be noted, especially when there are multiple preparers of forms.

**NATURAL RESOURCES AND ENVIRONMENTAL PROTECTION CABINET
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2000
(CONTINUED)**

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Other Matters Relating To Internal Control And/Or Compliance: (Continued)

**FINDING 00-NREPC-2: Natural Resources and Environmental Protection Cabinet
Should Continue To Strengthen Internal Controls Over The Preparation Of The
Schedule Of Expenditures Of Federal Awards (Continued)**

Auditor's Reply

We agree that the manager is ultimately responsible for providing the requested information. Our comment, based on the instructions we issued for providing Schedule of Expenditures of Federal Awards information, asked that the individual preparing each schedule be identified. Schedule of Expenditures of Federal Awards instructions, page 5, #7, states:

“The person preparing each schedule should be identified on the bottom of the page, along with the preparer's telephone number. This will assist us in resolving any questions that may arise during the audit.”

In addition, our comment addressed areas where we found errors in the preparation of the Schedule of Expenditures of Federal Awards. In our opinion, some of the errors noted could have been discovered if an adequate review was performed. In order to ensure the submission of an accurate schedule, we recommended that Schedule of Expenditures of Federal Awards information be reviewed for accuracy and appropriateness by someone not directly involved in the preparation of the schedules. The manager's review, in this case, would be appropriate if the manager did not prepare the submitted schedules.

Finally, as a means of having internal controls sufficient to ensure proper reporting, we suggested that some sort of acknowledgement of a review be indicated on the schedules. Our review of the agency's SEFA indicated that such an acknowledgement was not present.

Our instructions clearly asked for the preparer of the Schedule of Expenditures of Federal Awards be identified, and as you indicate in your response, our instructions do not provide specific directions for indicating a review acknowledgement on the schedule. However, we believe this is a control feature that is simple to implement and should be a procedure used by the agency to indicate acknowledgement of a review of the information being reported. We are currently in the process of updating our schedule instructions and hopefully they will address concerns indicated in your response.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

**NATURAL RESOURCES AND ENVIRONMENTAL PROTECTION CABINET
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2000**

Fiscal Year	Finding Number	Finding	CFDA Number	Questioned Costs	Comments
------------------------	---------------------------	----------------	------------------------	-----------------------------	-----------------

REPORTABLE CONDITIONS

(1) Audit findings that have been fully corrected:

There were no findings for this category.

(2) Audit findings not corrected or partially corrected:

There were no findings for this category.

(3) Corrective action taken is significantly different from corrective action previously reported:

There were no findings for this category.

(4) Audit finding is no longer valid:

There were no findings for this category.

MATERIAL WEAKNESSES

(1) Audit findings that have been fully corrected:

There were no findings for this category.

(2) Audit findings not corrected or partially corrected:

There were no findings for this category.

(3) Corrective action taken is significantly different from corrective action previously reported:

There were no findings for this category.

(4) Audit finding is no longer valid:

There were no findings for this category.

**NATURAL RESOURCES AND ENVIRONMENTAL PROTECTION CABINET
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2000**

Fiscal Year	Finding Number	Finding	CFDA Number	Questioned Costs	Comments
<u>OTHER MATTERS</u>					
<i>(1) Audit findings that have been fully corrected:</i>					
There were no findings for this category.					
<i>(2) Audit findings not corrected or partially corrected:</i>					
FY 99	99-NREPC-1	The Natural Resources And Environmental Protection Cabinet Should Improve Its Controls Over The Review Of Timesheets, Leave Requests, Overtime Requests And Reports	N/A	\$ 0	Resolved

(3) Corrective action taken is significantly different from corrective action previously reported:

There were no findings for this category.

(4) Audit finding is no longer valid:

There were no findings for this category.

